



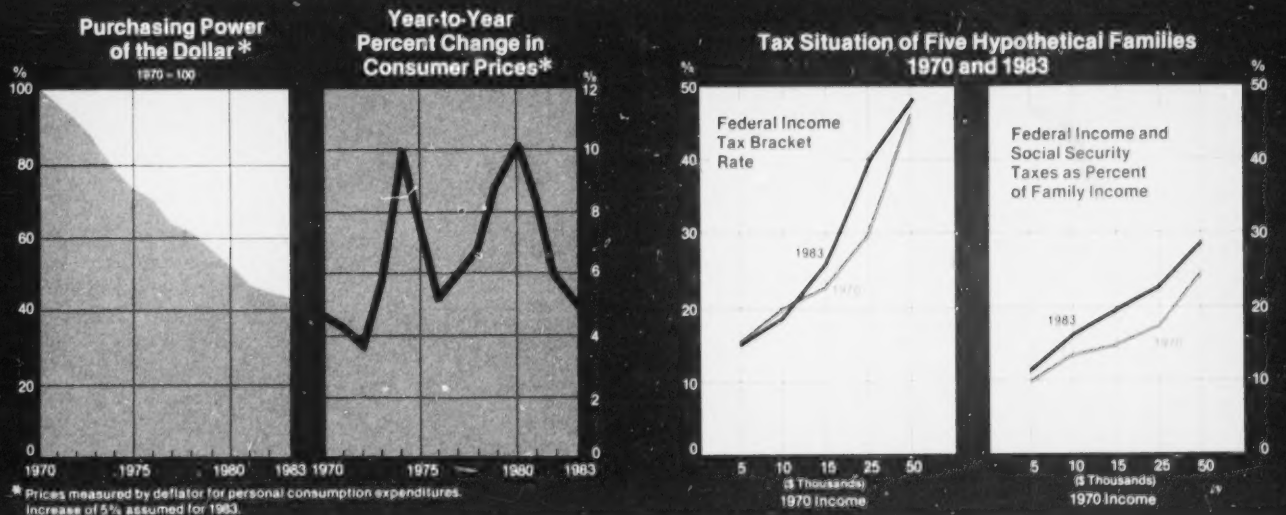
The Two-Way Squeeze, 1983

Economic Road Maps

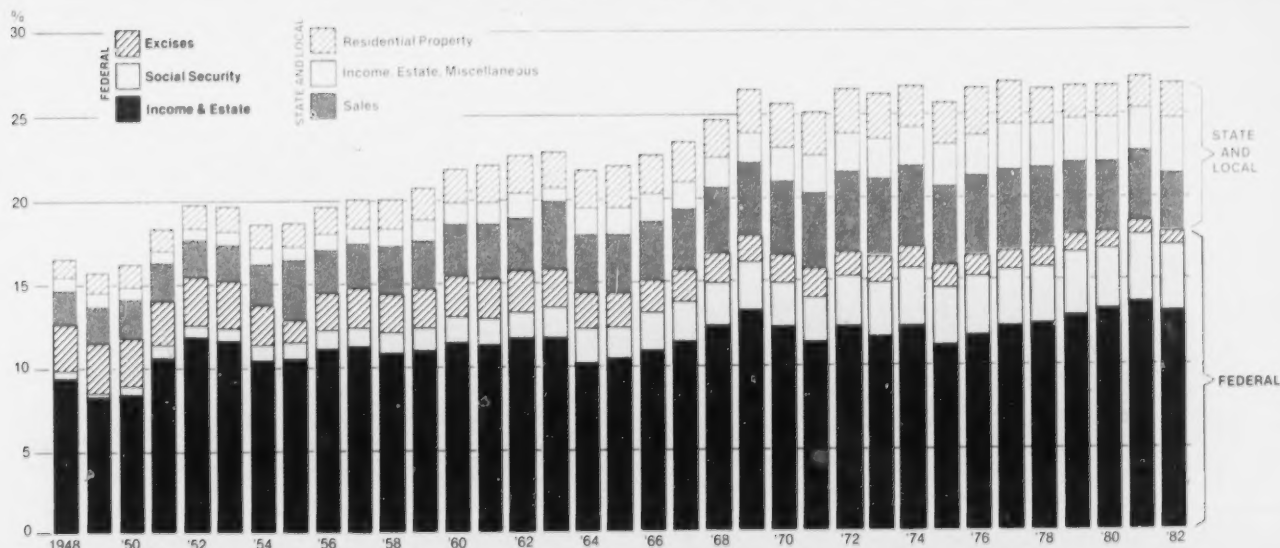
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April, 1983

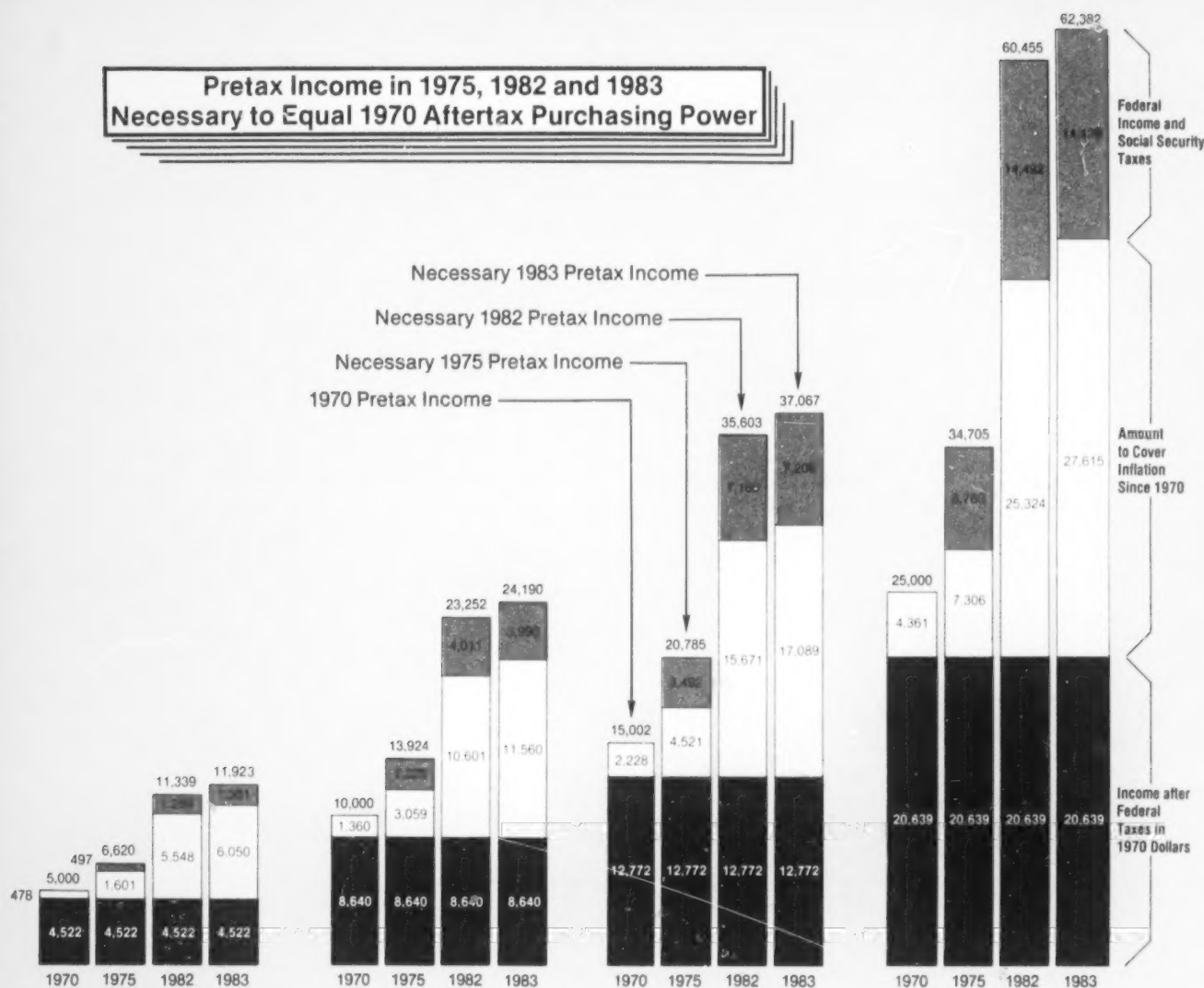
Even if the price level rises only 5% this year, a dollar in 1983 will have only 42.8% of a 1970 dollar's purchasing power. Page 2 details the impact of inflation and federal income taxes on five hypothetical families in 1970, 1975, 1982, and 1983. The family that had \$10,000 before taxes in 1970—about the average then—paid 14.9% of its income in federal income and social security taxes (chart below right). In 1983, that family needs \$24,190 before taxes to have the same after-tax purchasing power it had in 1970, and its combined federal tax burden is 19.4 percent. The \$5,000 1970 income was roughly the 20th percentile point of the 1970 income distribution, \$15,000 was about the 80th percentile, and \$25,000 was about the 95th percentile. The family-income calculations relate only to federal taxes, but the lower chart on this page shows total federal and state-local taxes as percents of total personal income.



Taxes on Persons as Percent of Pretax Personal Income
(Income Excludes Transfer Payments)



Pretax Income in 1975, 1982 and 1983 Necessary to Equal 1970 Aftertax Purchasing Power



1970 PRETAX INCOME	\$ 5,000	\$10,000	\$15,000	\$25,000	\$ 50,000
Less: Federal income tax	238	986	1,854	3,987	11,982
Less: Social security tax	240	374	374	374	374
Equals: Income after federal taxes	4,522	8,640	12,772	20,639	37,644
1975 NECESSARY PRETAX INCOME	6,620	13,924	20,785	34,705	70,592
Less: Federal income tax	110	1,411	2,667	5,935	18,797
Less: Social security tax	387	814	825	825	825
Less: Amount to cover inflation since 1970	1,601	3,059	4,521	7,306	13,326
Equals: Income after federal taxes, in 1970 dollars	4,522	8,640	12,772	20,639	37,644
1982 NECESSARY PRETAX INCOME	11,339	23,252	35,603	60,455	121,922
Less: Federal income tax	509	2,453	4,989	12,321	35,918
Less: Social security tax	760	1,558	2,171	2,171	2,171
Less: Amount to cover inflation since 1970	5,548	10,601	15,671	25,324	46,189
Equals: Income after federal taxes, in 1970 dollars	4,522	8,640	12,772	20,639	37,644
1983 NECESSARY PRETAX INCOME	11,923	24,190	37,067	62,382	123,873
Less: Federal income tax	552	2,369	4,814	11,736	33,469
Less: Social security tax	799	1,621	2,392	2,392	2,392
Less: Amount to cover inflation since 1970	6,050	11,560	17,089	27,615	50,368
Equals: Income after federal taxes, in 1970 dollars	4,522	8,640	12,772	20,639	37,644

Federal income and social security taxes are computed for a married couple, only one of whom works, with two children. No allowance is made for any other taxes. Calculations use the tax laws in effect each year. Deductible items are assumed to equal 17% of pretax income in 1970, 20% in other years. For calculating maximum tax and earned income credit, all income is assumed to be earned, personal service income. Inflation is calculated from the deflator for personal consumption spending, with a 5% rise assumed from 1982 to 1983.

Sources: Bureau of Economic Analysis; Internal Revenue Service; The Conference Board.

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ECONOMIC ROAD MAPS

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Prices for Quantities of this chart will be supplied on request to Information Service.

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